



BRIEFING: APRIL 12, 2016 BOARD MEETING AGENDA ITEM #3

TO: Chairman Richard and Board Members

FROM: Jon Tapping, Director of Risk Management and Project Controls

DATE: April 12, 2016

RE: Consider Adopting the Risk-Informed Contingency for the Construction Package 4 Design-Build Contract

Background and Prior Board Action

At its August 1, 2013 meeting the California High-Speed Rail Authority (Authority) Board adopted Resolution #HSRA 13-20 (attached), establishing policies and procedures pertaining to the use of contingencies on Construction, Design-Build, and Design-Build-Operate contracts. As part of Resolution #HSRA 13-20, the Authority adopted a risk-based, informed approach in determining appropriate levels of contingency for individual contracts. Accordingly, risk-based contingencies were developed and adopted for Construction Packages 1 and 2-3.

Subsequently, at its January 12, 2016 meeting, through Resolution #HSRA 16-01 (attached), the Board approved California Rail Builders as the Apparent Best Value Proposer for the Construction Package 4 Design-Build Services contract, and authorized the CEO to undertake all necessary actions to negotiate and execute the contract for Construction Package 4 (CP 4). The CP 4 Design-Build contract was fully executed on February 29, 2016.

Authority staff now seeks the Board's approval to establish the construction contingency for CP 4, pursuant to the Board's policy.

Discussion

The briefing memorandum provided to the Board in support of Resolution #HSRA 13-20, contained this brief summary of the following meaning and purpose of contingencies:

"Contingency provides a level of protection to the project budget that allows for the successful completion of the project in the face of uncertainty and risk, allowing the project manager to respond to probable, if not precisely quantifiable, variations in the project cost in a timely manner to keep the project moving forward."

Authority staff has conducted a comprehensive risk-based informed investigation of the facts and circumstances that exists relative to design and construction for CP 4. Staff has followed best

practice procedures and the process outlined in the Board policy. While presenting a detailed description of the specific items included in the contingency is not in the best interest of the Authority and the State of California, each item currently known to the Authority which is appropriate to include in a risk analysis has been carefully considered. During the course of construction of CP 4, as anticipated risks are resolved, staff will report to the Board on appropriate adjustments to the project contingency.

This contingency is tied to the project, is not controlled by the contractor, and will be managed by the Authority.

Following the policies and procedures established by the Board in Resolution #HSRA 13-20, Authority staff has developed a construction contingency of \$62,000,000 as appropriate at this time for CP 4. The Authority's risk informed contingency analysis indicates that a \$62,000,000 contingency results in approximately a 90 percent confidence level.

Budget Implications

The CP 4 construction contingency of \$62,000,000 will be allocated from the program's unallocated contingency. This \$62,000,000 allocation is accounted for in all of the Authority's cost projections and will not change the bottom line to the current program budget.

It should be noted that this analysis and recommendation does not consider the uncertainty and risk associated with the budgeted \$107 million Provisional Sum (PS) for PG&E, AT&T and Level 3 utility work in Resolution #HSRA 16-01. The estimate and risk overlay for this PS work is currently being assessed and updated, in concert with other PS and third party utility work for all the Construction Package contracts, and will be presented at a future Board meeting.

Recommendation

Authority Staff recommends that the Board adopt the amount of \$62,000,000 as the construction contingency for CP 4.

Attachments

- Resolution #HSRA 13-20
- Resolution #HSRA 16-01
- Draft Resolution #HSRA 16-10